

## House Bill 34

# 2009 LEGISLATIVE PROPOSAL TO ACTUARIALLY FUND THE TEACHERS' RETIREMENT SYSTEM

**Sponsor: Representative Frankie Wilmer**

**Presentated by:**

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### Funding Overview

The Montana Constitution, Article VIII, Section 15, requires all public retirement systems to be actuarially funded. The July 1, 2008 Actuarial Valuation for the Teachers' Retirement System (TRS) shows that the current contribution rates will not amortize the unfunded liability over 30 years. The amortization period as of July 1, 2008, was 31.3 years, the funded ratio was 79%, and the system had unfunded liabilities of \$794.6 million. The 2008 Valuation recommended a rate increase of 0.17% effective July 1, 2009, based on the actuarial value of assets, or an increase of 1.57%, based on the market value of assets. HB 34 will move the TRS closer to being actuarially funded and was reviewed by the State Administration and Veterans' affairs Committee.

### **This Proposal includes the following changes:**

- Calculation of rehired retiree benefits: Currently when a retiree returns to work in a TRS covered position full-time, his benefits are canceled and a new benefit is calculated when he/she again retires. It has been shown that this re-calculation can result in a benefit increase that is often under funded.

A study of 104 retirees who returned to work in TRS covered positions and retired a second time found that the average retiree returned to work for 2.98 years, and that the average benefit increase was \$494. The present value of the benefit increases this group received was over \$7.3 million. However, during the time they were working, the TRS collected only around \$2.1 million, leaving over \$5 million in benefit increases under funded. Current practice results in an unplanned and under funded benefit enhancement for retirees returning to full-time covered employment. This amendment will help avoid further increases in the TRS unfunded liabilities.

New Section 1 of HB 34 will simply freeze benefits when a retiree returns to active status on or after July 1, 2009, and then if the retiree works for at least 3 full years, a second benefit will be calculated based on the new service and salary, which will be added to the original benefit. For Example, assuming a member returns to work for 3 years and has an average salary of \$50,000:

Original Retirement Benefit	\$1,400
New benefit Based on 3 Years	\$ 208
Total Monthly Benefit	\$1,608

Under current law, assuming the member originally retired with 25 years of service, the recalculated monthly benefit would be \$1,945. Resulting in an under funded benefit increase of \$337.00.

If the retiree works less than three years, the original benefit will be reinstated and the retiree will receive a refund of their contributions plus interest.

Around 64 former retirees currently in "active status" will not be affected by this change, even though when they subsequently retire, the benefit increase they receive will be substantially under funded.

If this amendment is not made, the TRS will continue to experience significant losses related to retirees who return to work, requiring a change in the actuarial assumptions to recognize the higher liabilities associated with this experience.

- Employer contributions on working retiree wages: Section 2 requires employers to contribute 9.85% (employer contribution rates) of all compensation paid to working retired, i.e., retirees who continue to receive retirement benefits while working part-time for a covered employer.

Under current law, retirees may return to part-time TRS covered positions and earn up to one third of their average final compensation without any reduction in benefits. This amendment will not affect the ability of schools to hire retired TRS member; however, it will increase contributions to TRS by approximately \$700,000 per year. The additional contributions will help offset the increased number of retirees returning to part-time TRS covered positions while they continue to receive benefits, and restore contributions lost by TRS. If approved, this amendment will reduce the amortization period as of July 1, 2008, from 31.3 years to 30.5 years.

Had employers hired non-retired educators to fill these positions, these are the contributions that the TRS would have collected anyway.

- Retirement effective date, Section 3: Under the proposed amendment, if a member terminates their employment within 30 days of the last day of school, retirement benefits will be effective on the first of the month following the last Pupil-Instruction (PI) or Pupil-Instruction-Related (PIR) day in the school year.

We are aware of at least one individual who terminated his employment one day early, in order to receive one additional retirement benefit. This change will simply close the gate before this practice become more widespread and results in measurable unfunded liabilities.

- Section 4 of the HB 34 strikes the current provision in §19-20-731, MCA, under which benefits are recalculated when a retired member returns to full-time employment covered under TRS, which are being replaced with the provisions found in new section 1 of the bill.

### Summary

House Bill 34 will terminate the under funded practice of recalculating benefits when someone comes out of retirement and re-retires a second time, it will infuse some much need additional funding into the TRS, and stop the practice of retiring a few days early just to gain one additional monthly benefit. HB 34 is anticipated to reduce the amortization period as of June 30, 2008, from 31.3 years to 30.5 years.

**RECALCULATED RETIREMENT BENEFITS \*RETIRE-REHIRE-RETIRE**  
**Examples of how Section 1 would be implemented**

<u>Currently Law</u>	<u>Example 1</u>	<u>Example 2</u>
Original Retirement Benefit	\$ 974	\$1,171
Monthly Benefit Increase	<u>\$1,560</u>	<u>\$ 803</u>
Total Monthly Benefit	\$2,534	\$1,974

<u>Proposed Change</u>	<u>Example 1</u>	<u>Example 2</u>
Original Retirement Benefit	\$ 974	\$1,171
New benefit, Based New Service	<u>\$ 438</u>	<u>\$ 166</u>
Total Monthly Benefit	\$1,412	\$1,337

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**PAST HISTORY OF PART-TIME WORKING RETIREES & WAGES**  
**REPORTED TO TRS v.s. NUMBER OF NEW RETIREES**

			<b>NEW</b>
<b>YEAR</b>	<b>WAGES</b>	<b>COUNT</b>	<b>RETIREEES</b>
<b>1994</b>	\$ 1,228,477.68	<b>271</b>	<b>485</b>
1995	\$ 1,900,280.72	325	362
1996	\$ 1,592,524.93	321	354
1997	\$ 1,544,944.88	352	411
1998	\$ 1,924,658.04	386	415
1999	\$ 2,092,554.36	409	478
2000	\$ 2,181,736.89	430	523
2001	\$ 3,091,849.75	481	559
2002	\$ 3,649,933.44	540	514
2003	\$ 4,352,745.22	618	481
2004	\$ 7,631,651.98	725	541
2005	\$ 5,919,230.82	735	484
2006	\$ 6,076,780.00	780	524
2007	\$ 6,296,333.00	864	537
<b>2008</b>	\$ 6,812,338.00	<b>919</b>	<b>634</b>

## ANTICIPATED FUNDING PURSUANT TO SECTION 2 OF HB 34

NUMBER OF WORKING RETIREES				Anticipated Employer Contributions			
	2006	2007	2008	2010	2011	2012	2013
Comm. COL.	2	24	22	\$11,000	\$12,000	\$12,000	\$13,000
SCH. DISTRICTS	663	660	704	\$467,000	\$488,000	\$510,000	\$533,000
State Agencies	5	3	6	\$6,000	\$6,000	\$6,000	\$6,000
University	110	177	187	\$204,000	\$213,000	\$223,000	\$233,000
Total	780	864	919	\$688,000	\$719,000	\$751,000	\$785,000
* State General Fund Total				\$140,000	\$131,000	\$137,000	\$143,000

\* Approximately 25% of the employer contributions paid by school districts will be funded by the state general fund together with a smaller amount coming from the state general fund for state agencies and the university system.